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Message Text

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USIA-15 AID-05 EB-07 CIEP-02 TRSE-00 STR-04 OMB-01

CEA-01 COME-00 FRB-01 XMB-04 OPIC-06 LAB-04 SIL-01

AGR-10 /137 W
---------- 021525
R 051907Z AUG 76
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 3693
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY ROME
AMEMBASSY TOKYO
USDEL MTN GENEVA
USMISSION EC BRUSSELS
USMISSION OECD PARIS
AMCONSUL BORDEAUX
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AMCONSUL STRASBOURG

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PASS TREASURY, FEDERAL RESERVE, COMMERCE

E. O. 11652: N/A
TAGS: EALR, EFIN, EGEN, FR
SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 21443, JULY 21, 1976

1. SUMMARY--

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ALTHOUGH THE VACATION PERIOD WAS ALMOST UNDERWAY,

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THE GOF LOST NO TIME IN ANNOUNCING THAT CONSUMER PRICES HAD INCREASED BY ONLY 0.4 PERCENT IN JUNE, DOWN FROM 0.7 PERCENT IN MAY. THE GROWTH RATE OF THE MONEY SUPPLY ALSO DECREASED, 0.2 PERCENT IN MAY AS COMPARED TO 1.8 PERCENT IN APRIL. ON THE OTHER HAND, INSEE'S JULY SURVEY OF INDUSTRIALISTS CONFIRMS OTHER REPORTS THAT THE GROWTH IN INDUSTRIAL PRODUCTION IS EXPECTED TO SLOW DOWN FOR THE REMAINDER

OF THE YEAR. MINISTER FOURCADE ANNOUNCED THAT THE PROPOSAL TO REVALUE BALANCE SHEETS, WHICH HOPEFULLY WILL BE AN INCENTIVE TO INVESTMENT, PROBABLY WILL GO INTO EFFECT NEXT YEAR.

2. CONSUMER PRICES SHOW A SMALLER INCREASE IN JUNE--

AS IF DESIGNED TO GOVERNMENT SPECIFICATIONS, THE CONSUMER PRICE INDEX FOR JUNE REGISTERED ONLY A 0.4 PERCENT INCREASE OVER THAT OF MAY. THIS COMPARES TO A 0.9 PERCENT MONTHLY INCREASE IN BOTH MARCH AND APRIL AND A 0.7 PERCENT INCREASE IN MAY. THE YEAR-OVER-YEAR PRICE INFLATION FOR JUNE AMOUNTED TO 9.2 PERCENT, DOWN FROM 9.6 PERCENT IN APRIL AND 9.5 PERCENT IN MAY. INSEE RETAIL PRICE INDEX (1970 EQUALS 100) WAS 165.6 IN JUNE, UP FROM 163.8 IN APRIL AND 164.9 IN MAY.

INCREASES FOR ALL THREE MAJOR CATEGORIES WERE LESS IN JUNE THAN IN MAY. FOOD PRODUCTS INCREASED BY 0.3 PERCENT; MANUFACTURES AND SERVICES BY 0.5 PERCENT. ALL THREE CATEGORIES HAD INCREASED BY 0.7 PERCENT IN MAY.

RETAIL PRICE INFLATION

(MONTHLY CHANGE IN CONSUMER PRICE INDICES IN PERCENT)

JAN. FEB. MAR. APR. MAY JUNE

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MANUFACTURES	0.8	0.4	1.0	0.6	0.7	0.5
FOOD	0.9	1.0	1.0	0.7	0.7	0.3
SERVICES	1.9	0.7	0.8	1.3	0.7	0.5
OVERALL	1.1	0.7	0.9	0.9	0.7	0.4

SEASONALLY ADJUSTED WHOLESALE FOOD PRICES DECLINED IN JUNE FOR THE THIRD MONTH IN A ROW. THE DECREASE WAS

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1.4 PERCENT, RESULTING IN A 4.3 PERCENT INCREASE OVER LEVEL OF PREVIOUS YEAR. UNADJUSTED WHOLESALE PRICES FOR MANUFACTURES INCREASED BY 0.5 PERCENT IN JUNE, 8.2 PERCENT ABOVE LAST YEAR'S LEVEL.

MINISTER FOURCADE, IN COMMENTING ON THE JUNE CONSUMER PRICE INDEX, SAID THAT IT MARKED A NET DECELERATION, BUT THAT THIS MUST BE REGARDED SIMPLY

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AGR-10 /137 W
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R 051907Z AUG 76
FM AMEMBASSY PARIS
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INFO AMEMBASSY BONN
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AS A RETURN TO NORMAL AFTER A PERIOD IN WHICH HAD BEEN CONCENTRATED THE MAJORITY OF INCREASES IN PUBLIC TARIFFS FORESEEN FOR THIS YEAR. DESPITE HIS OPTIMISM, THE INCREASES IN THE PRICES OF BUTTER, MILK, COFFEE, SUGAR, AND STAMPS WHICH WENT INTO EFFECT THE FIRST OF AUGUST MAY VERY WELL RESULT IN HIGHER LEVELS OF RETAIL PRICE INCREASES THAN IN JUNE.
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3. INDUSTRIALISTS EXPECT A SLOWDOWN IN GROWTH OF PRODUCTION IN COMING MONTHS--

INSEE'S MONTHLY SURVEY OF APPROXIMATELY 2,200 HEADS OF ENTERPRISES CONCERNING INDUSTRIAL PROSPECTS CONFIRMS THAT THE PERIOD OF CATCHING UP FOR INDUSTRY APPEARS NOW TO BE OVER AND HAS GIVEN WAY TO A SITUATION CLOSER TO DEMAND. AN EQUILIBRIUM APPEARS TO BE ESTABLISHED AMONG ORDERS, PRODUCTION AND DELIVERIES. A SMALLER NUMBER OF RESPONDENTS IN JULY THAN IN PREVIOUS MONTHS FORESAW AN INCREASE IN PRODUCTION FOR THEIR OWN INDUSTRY AND FOR INDUSTRY AS A WHOLE. ALTHOUGH THERE IS A WIDESPREAD EXPECTATION AMONG THE INDUSTRIALISTS THAT INDUSTRIAL PRICES IN GENERAL WILL INCREASE, THE NUMBER OF RESPONDENTS WHO FORESAW AN INCREASE IN THEIR OWN PRICES WAS SLIGHTLY LOWER IN JULY THAN IN MAY AND JUNE. FINALLY, FOREIGN ORDERS AND BACK ORDERS WERE JUDGED TO BE RATHER WEAK.

THE GROWTH OF PRODUCTION OF CAPITAL GOODS CONTINUED AT A MODERATE RATE. UNFILLED ORDERS REMAINED STABLE AND SLIGHTLY BELOW NORMAL. PRODUCTION APPEARED TO BE ADJUSTED TO DELIVERIES SINCE THE STOCKS OF FINISHED PRODUCTS HAD STABILIZED. FOR THE COMING MONTHS, THE PRODUCERS FORESAW THE CONTINUATION OF A MODERATE GROWTH IN PRODUCTION.

IN THE CONSUMER GOODS SECTOR, PRODUCTION CONTINUED TO INCREASE. ALTHOUGH THERE WAS A SLIGHT INCREASE IN STOCKS, THE LEVEL OF STOCKS REMAINED RATHER WEAK. THE INDUSTRIALISTS IN THIS SECTOR FORESAW A SLOWDOWN IN THE GROWTH OF PRODUCTION IN THE COURSE OF THE NEXT MONTHS.

THE GROWTH OF PRODUCTION SLOWED DOWN IN THE INTERMEDIATE GOODS SECTOR. AFTER NINE MONTHS OF

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IMPROVEMENT, UNFILLED ORDERS HAD STABILIZED SINCE MAY AT A LEVEL LOWER THAN NORMAL. THE RESPONDENTS IN THIS SECTOR EXPECTED THE INCREASE OF PRODUCTION
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TO CONTINUE TO SLOW DOWN IN THE COMING MONTHS.

4. SMALLER INCREASE IN MONEY SUPPLY FOR MAY--

PRESS REPORTS INDICATE THAT THE INCREASE IN THE UNADJUSTED MONEY SUPPLY IN MAY WAS ONLY 0.2 PERCENT IN MAY AS COMPARED TO 2.1 PERCENT IN MARCH AND 1.8 PERCENT IN APRIL. THE LEVEL OF THE UNADJUSTED MONEY SUPPLY FOR MAY WAS 799.09 BILLION FRANCS, A 20.3 PERCENT INCREASE OVER THE LEVEL OF MAY 1975. THE MONTHLY INCREASE FOR THE SEASONALLY ADJUSTED MONEY SUPPLY WAS 0.9 PERCENT. M1 (UNADJUSTED) WAS 419.9 BILLION FRANCS (0.5 PERCENT DECREASE FROM APRIL) AND NEAR MONIES WERE 379.2 BILLION FRANCS (1.1 PERCENT INCREASE). SEASONALLY ADJUSTED DATA ARE NOT YET AVAILABLE.

NET FOREIGN EXCHANGE RESERVES STOOD AT 41.33 BILLION FRANCS (2.4 PERCENT INCREASE), CLAIMS ON THE PUBLIC SECTOR AT 103.47 BILLION FRANCS (4.6 PERCENT DECREASE) AND CLAIMS ON THE PRIVATE SECTOR AT 676.90 BILLION FRANCS (NO CHANGE).

5. PROPOSED PLAN TO REVALUE BALANCE SHEETS MAY ENCOURAGE INVESTMENT--

THE COUNCIL OF MINISTERS WILL EXAMINE AT THE END OF AUGUST A PRELIMINARY PROJECT WHICH WILL PERMIT ENTERPRISES TO REVALUE THEIR BALANCE SHEETS TO TAKE ACCOUNT OF THE EFFECTS OF INFLATION ON THEIR HOLDINGS. ACCORDING TO MINISTER FOURCADE, THE LAW WILL BE EFFECTIVE IN 1977.

SINCE 1959 REVALUATION OF BALANCE SHEETS HAS BEEN

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AGR-10 /137 W
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FORBIDDEN. ALL REVALUATION RESULTING IN A CAPITAL GAIN HAS BEEN SUBJECT TO A 50 PERCENT TAX ON ITS VALUE. IN A PERIOD OF HIGH INFLATION, SUCH A PROHIBITION TENDS TO BE A DETERRENT TO INVESTMENT BECAUSE ENTERPRISES APPEAR TO BE EARNING HIGH PROFITS AND THUS PAY HIGHER TAXES THAN THEY WOULD IF THEIR HOLDINGS WERE VALUED AT CURRENT PRICES, AND THEIR ABILITY TO BORROW IS GREATLY
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REDUCED BY THE FACT THAT THEIR ASSETS ARE NOT CALCULATED AT CURRENT VALUES.

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MINISTER FOURCADE HAS STRESSED THAT THE PLAN FOR REVALUATION OF BALANCE SHEETS MUST BE SUCH THAT IT WILL PERMIT ONLY PRODUCTIVE INVESTMENT. HIS IDEA IS TO ADOPT A TECHNIQUE OF REVALUATION WHICH WILL NOT HAVE AUTOMATIC COEFFICIENTS, EXCLUDING AMORTIZATION.

6. OTHER REPORTS SUBMITTED DURING THE PERIOD--

TELEGRAMS

PARIS
22490 INCREASE IN ADB LENDING RATE 8/3
22415 VISIT BY NATIONAL BANK EXAMINERS 8/2
22223 VISIT OF VIRGINIA STATE HOUSING OFFICIAL 7/30
22162 GOF ECONOMIC POLICY IN TRANSITION 7/30
21904 PARIS FOREX MARKET 7/28
21903 VISIT BY NATIONAL BANK EXAMINERS 7/28
21883 CFF EXTENSION 7/27
21867 BROSSOLETTE TO LEAVE ELYSEE 7/28
21787 PARIS FOREX MARKET 7/27
21667 PARIS FOREX MARKET 7/26
21257 PARIS FOREX MARKET 7/21

AIRGRAMS

PARIS
A-337 AGREED MINUTE ON CONSOLIDATION OF ZAIRE DEBTS 8/2

A-335 FRENCH FOREIGN EXCHANGE HOLDINGS 8/2
A-334 FRENCH FOREIGN EXCHANGE HOLDINGS 8/2
A-333 FRENCH FOREIGN EXCHANGE HOLDINGS 7/29

A-332 FRENCH RESERVES IN JUNE 1976 8/2
A-330 TRADE WITH COMMUNIST AREAS STATISTICS FOR MONTH MAY 1976 7/29
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